FINDINGS AND RECOMMENDATIONS

For many decades, North Carolina's economic development strategy consisted of its good transportation system, its renowned Community College job training programs and UNC system, and its low property tax and utility rates. North Carolina was a late entrant in establishing economic development statutory and discretionary incentive programs relative to many other southern states. Economic development incentives cannot compensate for inadequate workforce or infrastructure. However, when other location factors are relatively equal and the prospects are highly mobile, economic development incentives can make a difference. Economic development incentives are most persuasive when the incentives are tailored to a company's specific priorities, the benefit of the incentives is front-loaded, and the incentives are offered early in a company's decision-making process. Economic development incentives have the greatest economic benefit to the State when the company employs local residents, has a catalytic effect on local suppliers, is in a job-growing mode, and creates local wealth.

Despite its commitment to economic development incentives, North Carolina has limited resources to expend for this purpose. Spending on economic development includes not only the cost of statutory and discretionary incentive programs, but also General Fund appropriations for economic development purposes to Commerce, non-State entities, NCCCS, and UNC, and transportation infrastructure expenditures for economic development purposes.

The State's expenditures for economic development purposes are analogous to an investor's portfolio. The totality of these expenditures represents the taxpayers' investment in the State's present and future economic growth and vitality. How the State allocates its spending among the different economic development purposes represents its economic development investment portfolio. The return on various economic development expenditures, like the return on various investments, varies widely. The Committee finds that North Carolina's current portfolio of economic development spending relies too heavily on statutory tax incentives. The Committee recommends that the State redefine its economic development objectives and reallocate its spending on economic development to meet those objectives in a more effective, targeted, and measurable manner.

Specifically, the Committee makes the following findings and recommendations, based upon the evidence and analysis of C^3E findings and recommendations to it. Appendix C contains a summary of the findings and recommendations by C^3E. The summary may also be accessed on the Committee's website.

REPEAL ARTICLE 3J TAX CREDITS

- **FINDING 1:** The current statutory tax credits are not tied to the State's strategic economic development goals.
- **FINDING 2:** Statutory tax credits are the least effective means of incenting companies to locate in a state and the most costly.
- **RECOMMENDATION 1:** Eliminate the statutory tax credits.